

# *Memorandum*

**TO: Envision San José 2040  
Task Force**

**FROM: Andrew Crabtree**

**SUBJECT: February 22, 2010  
TASK FORCE MEETING  
FISCAL REPORT**

**DATE: February 16, 2010**

---

For the February 22, 2010 Envision San José 2040 Task Force Meeting, the Task Force has been provided with a Fiscal Report that provides an analysis of the City's existing fiscal condition, including modeling of existing land-use fiscal impacts and an evaluation of the City's performance in providing various municipal services. Additional materials for the Task Force Meeting are posted on the Envision website. The Fiscal Report also provides a comparative analysis of the fiscal impacts of the five Land Use Study Scenarios being considered by the Envision Task Force. The following memorandum provides an analytical summary of the Fiscal Report contents.

## Existing Conditions Report

This section of the Report summarizes the City's current performance in meeting General Plan and FY 2008-2009 Adopted Budget service goals, based on current population, budget and service data. The City has experienced decreasing revenue and increasing costs since 2001, including significant increases in the cost of employee salaries and benefits. As a result, the City has experienced a growing structural budget deficit and a declining ability to provide services at a level consistent with community expectations. The City is currently meeting or not meeting the General Plan and Budget service goals as follows:

- **Meeting service goals** – Police (call response times), Emergency Medical Service (call response time), Parks, Recreation and Neighborhood Services (PRNS) (community center square footage per capita), Transportation (traffic flow at intersections and new arterial street construction), and Environmental Services (water supply, wastewater treatment, use of recycled water, and diversion of solid waste from landfills).
- **Not meeting service goals** – Fire (call response time), Library (volumes and square footage per capita), PRNS (parkland and sports fields per capita, aquatics, and facility maintenance), and Transportation (bikeway network, roadway maintenance and pavement conditions). On-going construction of Police, Fire and Library facilities will likely improve service delivery for those areas.

The Report establishes that the City's land dedicated to low-density housing causes the greatest net negative fiscal impact, followed by land in use for high-density and medium-density housing. The latter two housing types have a similar negative fiscal impact. Higher-density housing has lower service costs, but the revenue from existing high-density housing is depressed because much of the City's high-density housing stock is composed of older rental projects which generate less property tax

revenue. New high-density housing performs better from a fiscal standpoint. The City's land developed for commercial uses has the greatest positive fiscal impact due to the sales tax revenue generated from these land uses. Industrial lands also provide a positive fiscal impact but to a lesser degree than commercial uses. As a conclusion, the Report emphasizes the fiscal importance of expanding commercial retail activity to increase General Fund revenue, and concludes that it is possible for a fiscally sustainable land use scenario to include significant housing growth, provided that the full amount of retail demand created by any population growth is captured as retail activity within San Jose.

### Analysis of Land Use Study Scenarios

The Fiscal Report includes an analysis of the fiscal impact in 2040 of full build-out of the job and housing growth capacity provided within each of the Land Use Study Scenarios. Because the intent of this analysis is to allow comparison of the scenarios with each other, variables other than land use which could affect the City's fiscal condition are held constant. Accordingly, potential changes to the City's service delivery methods and standards are not analyzed within the Report. Furthermore, the Report is based on the current methods for the calculation of service costs, which in many cases do not take population density or other changes in the form of land use development into consideration. If the City is able, as expected, to improve the efficiency of service delivery with more compact development, the scenarios may have a more positive fiscal impact than what is stated. Because all of the scenarios equally focus new development into relatively compact areas, this benefit would have a similar impact on all of the scenarios and not affect the relative performance of each as identified within the Report.

The Fiscal Report concludes that build-out of any of the five Land Use Study Scenarios, as well as build-out of the City's current General Plan, would result in a positive fiscal impact for the City. This positive impact is attributed to:

1. Improvement of the City's Jobs-Housing Balance – All five scenarios raise the City's Jobs / Employed Resident ratio (J/ER) from the current level (0.8) to a ratio of 1.0 or greater. As concluded in the Report, industrial and commercial uses have a net positive fiscal impact while residential uses typically have a net negative fiscal impact. The five scenarios each provide proportionally more capacity for industrial and commercial growth than they do for residential growth. Increasing the City's proportional share of industrial and commercial activity is expected to have a positive fiscal impact.
2. Emphasis upon Compact Development – Compact development, meaning development at a higher density and in closer proximity to the City's existing center and various infrastructure facilities, reduces the cost of service delivery. One reason that Scenario 3 performs better fiscally than the City's current General Plan scenario (SJ 2020) despite having a lower J/ER is that Scenario 3 does not include development within the Coyote Valley and South Almaden Valley Urban Reserves.
3. Retention of Existing and Full Capture of New Retail Activity – As concluded in the Report, commercial / retail uses have a markedly greater positive fiscal impact than any other use. The mixed use "village" growth strategy embedded within all Land Use Study Scenarios anticipates that the majority of new development would occur through the recycling and reuse of already

developed land. Any existing commercial uses would be retained and intensified in a mixed use configuration, capturing all of the retail demand created by new residential development in San Jose. In order for a growth scenario to have a positive fiscal impact, it must include retail activity equal (or greater) to the demand generated by the projected residential growth.

**FISCAL REPORT - EXHIBIT D**  
**SUMMARY OF FISCAL IMPACTS OF FUTURE GROWTH SCENARIOS**  
**(ANNUAL GENERAL FUND NET (COST)/REVENUE AT FULL BUILDOUT)**

<b>Scenario</b>	<b>Net Annual Fiscal Impact</b>	<b>Job Growth</b>	<b>Housing Growth</b>	<b>Incremental Jobs/Housing Ratio</b>	<b>Percent of Jobs in Retail</b>
Scenario 5	\$32,886,116	428,550	135,650	3.2	8.8%
Scenario 4	\$32,590,161	526,050	88,650	5.9	6.5%
Scenario 2	\$25,728,048	360,550	135,650	2.6	9.4%
Scenario 1	\$25,499,308	346,550	88,650	3.9	6.6%
Scenario 3	\$20,427,419	339,530	158,970	2.1	11.0%
SJ 2020	\$2,293,427	255,550	82,110	3.1	4.7%

Source: ADE, Inc.

Fiscal Report Conclusions

The Report concludes that all of the scenarios have a positive fiscal impact. San Jose can support a significant amount of housing development provided that the City can ensure that the commercial sector expands accordingly and that San Jose enhances its stature as a regional retail center. The Report also notes that while residential development normally generates service costs greater than revenue (a net negative fiscal impact), high-density, integrated mixed-use developments, including residential and significant amounts of retail, can have a positive fiscal impact.

The Report also concludes that: “All of the scenarios include a significant increase in the City’s job base, along with capture of the full amount of retail needed to serve the demand generated by new growth in the scenario. The City should ensure that these two conditions are met throughout the implementation of any scenario.”

These conclusions therefore indicate that regardless of the scenario selected, the General Plan should include strong implementation policies in order to keep the City’s growth on the desired course. It may work best to define such a course in terms of Jobs / Employed Resident ratio, with the targeted destination defined in terms of the scenario’s ultimate jobs and housing growth capacity. As shown in the Report’s conclusions, development of the growth capacity provided in a job-oriented scenario will provide greater fiscal benefit. The identification of Scenario 5 as the highest performing scenario at build-out suggests that choosing policy to phase development according to a J/ER ratio of 1.2, with checks to verify the incorporation of the corresponding retail activity, will enable the most fiscally beneficial blend of employment, retail and housing.

Andrew Crabtree  
Envision San José 2040